

# EXHIBIT C

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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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SCHOTTENFELD QUALIFIED ASSOCIATES LP,  
on behalf of itself and all others  
similarly situated,

Plaintiff,

Case No. 05-CV-7092 (CLB)

-against-

WORKSTREAM, INC.; MICHAEL MULLARKEY;  
AND DAVID POLANSKY,

Defendants.  
-----x

COPY

DEPOSITION OF RICHARD SCHOTTENFELD

New York, New York

Monday, October 9, 2006

Reported by:  
DOROTHY H. LONDON, RPR

Job No. 188265

1 R. SCHOTTENFELD

2 exists as a result.

3 Pursuant to Rule 30(b)(6), you  
4 would need to specify what you wanted him  
5 to testify about. We never received any  
6 notification. Instead, we were asked to  
7 present Mr. Schottenfeld, which is what  
8 we're doing.

9 MR. GOWEN: Well, let me go off the  
10 record then. Can we go off the record?

11 (Discussion held off the record.)

12 BY MR. GOWEN:

13 Q. Sorry for the interruption,  
14 Mr. Schottenfeld. How old are you?

15 A. I'm 45.

16 Q. What is your educational  
17 background?

18 A. I have a bachelor's degree from  
19 Franklin and Marshall College.

20 Q. In what?

21 A. It's a double major, economics and  
22 government.

23 Q. When did you get that?

24 A. I graduated in 1982.

25 Q. Any education after that?

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2 A. A few industry-related course work,  
3 but I didn't get a master's.

4 Q. So no other degrees?

5 A. No other degrees.

6 Q. Did you take any other courses at  
7 any academic institutions?

8 A. Again, at New York Institute of  
9 Finance and things like that, you know, but more  
10 career-related training program.

11 Q. I think you mentioned before they  
12 are industry related, and then you mentioned  
13 they are career related. What industry or  
14 career are you referring to?

15 A. The investment industry, you know,  
16 for financial industry, things like technical  
17 analysis and securities research and things like  
18 that that relate to my business.

19 Q. What is your business?

20 A. I own Schottenfeld Group, which is  
21 a broker/dealer that specializes in proprietary  
22 trading, and I also own Schottenfeld Qualified  
23 Associates and Schottenfeld Associates, which  
24 are hedge funds.

25 Q. What's proprietary trading?

1 R. SCHOTTENFELD

2 are made by Schottenfeld Management, correct?

3 A. That would be correct.

4 Q. Who makes decisions for  
5 Schottenfeld Management?

6 A. Myself and -- I mean, the other  
7 individuals have selected authority when I give  
8 it to them, but ultimately, myself.

9 Q. So in that sense, through  
10 Schottenfeld Management, you make the investment  
11 decisions for Schottenfeld Qualified Associates,  
12 correct?

13 A. That is correct.

14 Q. Winchester Holdings you mentioned  
15 is the general partner of the fund entity,  
16 correct?

17 A. That's correct.

18 Q. What is the difference between  
19 Winchester's duties and Schottenfeld  
20 Management's duties with respect to the fund  
21 entity?

22 MR. STONE: Objection to form.

23 Q. If you understand, you may answer  
24 it.

25 MR. STONE: You can still answer

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2 Winchester.

3 Q. So Winchester makes no investment  
4 decisions for the fund?

5 A. We're all one and the same, so it's  
6 difficult to say that, but I would guess that I  
7 probably, if I looked at it from a legal  
8 perspective, make those decisions as my role in  
9 Management Corp., not in Winchester.

10 Q. Let's go back. I'd like to ask you  
11 about your occupations and your employment  
12 between college and now.

13 A. Okay. Just chronologically, go  
14 through it for you?

15 Q. Please.

16 A. I began working for a firm of  
17 Fagenson & Company, which is run by Bob  
18 Fagenson. It was a New York Stock Exchange  
19 specialist firm and worked in various jobs.  
20 Initially, I started on the floor, then worked  
21 through their back office and learned the  
22 business from a trading perspective there.

23 From that, I went to Starr  
24 Securities, which was an entity controlled by  
25 Fagenson & Company, where I started doing -- I

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2 was employed technically as a broker, and I  
3 would look for ideas, investment ideas, which  
4 developed in a practice that primarily  
5 concentrated on hedge funds, where I would sell  
6 institutional investors ideas.

7 From that, one of my clients, a  
8 firm named Cantor, Weiss & Freidner, had a fund  
9 called Bridgewater Partners which I was  
10 providing ideas to. They hired me to help run  
11 money and transition myself from the sell side  
12 to the buy side. They felt that my ideas were  
13 good. It was there that I started the  
14 proprietary trading operation and ultimately  
15 started my own hedge fund after working on  
16 Bridgewater Partners for a while.

17 And then from there, I left and  
18 went and sat at a firm called Puglisi & Company  
19 for two years, where I managed my hedge fund and  
20 further built my proprietary trading operation.  
21 And then in about two and a half or three years  
22 ago, I formed the broker/dealer, Schottenfeld  
23 Group, which again, moved the same collection of  
24 businesses into Schottenfeld Group, where they  
25 reside now.

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2 Q. So you've been in the investment  
3 business since 1982, correct?

4 A. I think it was '83 that I started  
5 at Fagenson & Company.

6 Q. Just to be more clear, you've been  
7 investing professionally since 1983, correct?

8 A. In different capacities, I'd say  
9 probably 1983 I wasn't investing professionally,  
10 but somewhere along the way, that transitioned  
11 from a back office to front office.

12 Q. You mentioned that you spent time  
13 in the beginning looking for investment ideas.  
14 What did you mean by that?

15 A. You'd research companies and try to  
16 find opportunities where you felt that there was  
17 going to be good growth or investment prospects  
18 and I guess or look for companies that were  
19 damaged and deteriorating to short, as well but  
20 just looking for opportunities to present to  
21 investors at that point initially in my role as  
22 a broker that they would find appealing and as  
23 my career moved on, that I found appealing for  
24 my investors.

25 Q. You mentioned that you switched



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2 A. No.

3 Q. Do you act as an investment advisor  
4 for any people?

5 A. From time to time, I may discuss  
6 investments that I think have merit with people  
7 that are clients of my brokerage firm, but I  
8 don't have any input into their investment  
9 decision.

10 Q. Have you ever appeared on  
11 television?

12 A. Yes.

13 MR. STONE: Wait for the next  
14 question.

15 THE WITNESS: I'm sorry.

16 Q. How many times have you appeared on  
17 TV?

18 A. I don't know an exact number,  
19 probably about a hundred.

20 Q. What channel?

21 A. CNBC, I've been on Bloomberg, I've  
22 been on CNN.

23 Q. Has it always been because of your  
24 knowledge of the investment world?

25 A. Yes.

1 R. SCHOTTENFELD

2 Q. Do you know why they wanted you to  
3 be on TV?

4 MR. STONE: Objection to form.  
5 Only if you know.

6 A. I don't know why they wanted me to  
7 be on TV.

8 Q. Do they consider you someone who  
9 has expert knowledge of any particular field?

10 A. Technology is an area that they  
11 believe I have an expertise, and general  
12 investments, I think they call on me for my  
13 expertise in the area.

14 Q. Are you there to speak from the  
15 perspective of any particular sector of the  
16 investment world?

17 MR. STONE: Objection to form. Are  
18 you talking for all of the appearances or  
19 just generally?

20 Q. Well, do the appearances differ in  
21 that way?

22 A. I've been on a number of different  
23 shows where I've been asked to perform different  
24 roles. The most frequent role is that of host,  
25 guest host of a show called Squawk Box where I'm

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2 asked to not only discuss things I know about  
3 but also get involved in the questioning and  
4 dialogue of a series of guests that are on.

5 And I guess from that perspective,  
6 I'm called on because of my general knowledge  
7 that I, you know, I could speak to a lot of  
8 these topics that come up, and I believe that's  
9 why they call on me.

10 Q. Then other times you're called upon  
11 to speak --

12 A. On my own investment -- you know,  
13 generally, there might be in a show of a few  
14 minutes of segments where they ask me about what  
15 I'm doing in the marketplace, and then there are  
16 other segments where they ask me to question  
17 others on what they're doing.

18 MR. GOWEN: I have to break into my  
19 box, so if you want to break. It's a  
20 little early but...

21 MR. STONE: Sure.

22 (Recess taken.)

23 (Schottenfeld Exhibit 1, Private  
24 Placement Memorandum for Schottenfeld  
25 Qualified Associates LP, marked for

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Q. Is there a more current version of this document?

A. I don't believe so, although we had to register -- we had to, then we didn't have to register as registered investment advisors, and we were preparing a modification of the document because we had gone through that qualification process. If that were not incorporated into this one, I don't think because of the current controversy regarding that law that we've made that our official PPM yet, but just to alert you to the fact that that revision was either contemplated or completed at this point. I'm not sure whether that would supersede this, but this is effectively the most current one, I believe.

Q. Is this document, Shottenfeld Exhibit 1, a currently accurate description of the investment objective and method of operation of Schottenfeld Qualified Associates?

MR. STONE: Objection to form.

A. Yes.

Q. Is it also an accurate description of the investment objective and method of

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2 operation of that for the period from  
3 October 2004 through April of 2005?

4 MR. STONE: Objection to form.

5 A. Yes.

6 Q. Please draw your attention to  
7 Page 12.

8 A. Yes.

9 Q. Please read the first paragraph  
10 beginning with "The partnership's general  
11 partner." Do you see that?

12 A. Yes.

13 Q. You need not read it out loud.  
14 Just read it to yourself, and tell me when  
15 you're finished.

16 A. Yes.

17 Q. Is that accurate?

18 A. Yes.

19 Q. Is it accurate for the period from  
20 October 2004 through April 2005?

21 A. It is.

22 Q. Please read the second paragraph  
23 beginning with "Mr. Schottenfeld is the sole  
24 principal."

25 A. Yes.

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2 Q. You have read it?

3 A. Yes.

4 Q. Is that accurate?

5 A. Yes.

6 Q. Is it accurate for the period from  
7 October '04 through April '05?

8 A. Yes.

9 Q. We will come back to that, but you  
10 may put it aside.

11 MR. GOWEN: Two, please?

12 (Schottenfeld Exhibit 2, PowerPoint  
13 presentation, marked for identification,  
14 as of this date.)

15 BY MR. GOWEN:

16 Q. Mr. Schottenfeld, we have placed  
17 before you another document. This one is marked  
18 as Schottenfeld Exhibit 2. Are you familiar  
19 with this document?

20 A. Yes.

21 Q. What is it?

22 A. It's a PowerPoint presentation that  
23 we prepared to acquaint investors with the fund  
24 and its operations.

25 Q. I note that it's dated October 2005

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2 on the first page. Do you see that?

3 A. Yes.

4 Q. Are there older versions of this  
5 document?

6 A. Yes, there have been.

7 Q. Is this the most current one?

8 A. I believe it is. Actually, I don't  
9 know if it's the most current one.

10 Q. Well, let me ask you this --

11 A. (Continued) But I don't think  
12 there's material differences if there were  
13 modifications in more current versions.

14 Q. Does it accurately describe  
15 Schottenfeld Associates for the period from  
16 October 2004 through April 2005?

17 MR. STONE: Objection to form.

18 A. I believe it does.

19 Q. Again, I think you spoke about this  
20 before, but Schottenfeld Associates, the subject  
21 of this document, is technically distinct from  
22 Schottenfeld Qualified Associates, correct?

23 A. Technically, although, I believe  
24 that it was used generically here to represent  
25 both funds.

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2 Q. Please turn your attention to  
3 Page 35.

4 A. Okay.

5 Q. What does this page describe?

6 A. This describes some of the  
7 individuals involved in the management of the  
8 company and their responsibility.

9 Q. It says in one of the boxes  
10 "Stephen Kalish, research." Do you see that?

11 A. Yes.

12 Q. What are Mr. Kalish's duties?

13 A. He assists me in managing the  
14 portfolio from a research perspective. His  
15 responsibilities would include meeting with  
16 company managements, attending conferences and  
17 conference calls and reading research and trying  
18 to generate ideas, profitable investment ideas  
19 for the partnership.

20 Q. Was Mr. Kalish in that same  
21 position in October 2004 through April 2005?

22 A. He was.

23 Q. The next box says "Paul Berliner,  
24 analyst"?

25 A. Yes. Paul assists me in



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2 researching ideas. He has shared  
3 responsibilities between the two companies in  
4 that he runs a portfolio for Schottenfeld Group.  
5 So he doesn't get portfolio discretion within  
6 Schottenfeld Qualified Associates, but he still  
7 assists me in generating ideas and doing  
8 research for which he's paid a small salary by  
9 Schottenfeld Associates.

10 Q. Does Mr. Kalish have portfolio  
11 discretion within Schottenfeld Qualified  
12 Associates?

13 A. He can from time to time, yes,  
14 although generally, that discretion is given on  
15 a case-by-case basis by me, although I should  
16 add, if I'm not available or not around, he does  
17 have the right to react, you know, to liquidate  
18 a position in the portfolio without consulting  
19 me if he thinks it's the right decision.

20 Q. Was Mr. Berliner in that position  
21 from October 2004 through April 2005?

22 A. Yes.

23 Q. The next box says "Lewis Katz, head  
24 trader"?

25 A. Yes.

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2 A. Yes.

3 Q. In the paragraph below, it says,  
4 "The partnership seeks to produce superior  
5 returns primarily by taking a value-oriented  
6 approach to investing in sectors that are  
7 heavily followed by momentum investors."

8 Do you see that?

9 A. Yes.

10 Q. What is a value-oriented approach?

11 A. We're looking at technology  
12 companies, and what we are trying to do is find  
13 businesses where we think there is some sort of  
14 asset floor or valuation floor that will protect  
15 the risk side of the equation, and we feel that  
16 by focusing on groups where there are a lot of  
17 momentum investors like technology companies,  
18 that we'll be rewarded disproportionately when  
19 we're right.

20 So for example, if a technology  
21 company isn't growing their numbers very  
22 quickly, there tends to be a limited audience  
23 for that company and the valuations tend to get  
24 compressed. If those companies were to start to  
25 grow again and put a growth or momentum-type

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2 multiple on them, then we would feel like we  
3 would get not only price appreciation, we'd get  
4 multiple expansion. And so therefore, we feel  
5 like the risk/reward is skewed by taking -- our  
6 focusing on the valuation of the companies that  
7 we're looking at.

8 Q. What do you mean by "momentum  
9 investors"?

10 A. Some investors will look at the  
11 balance sheet or valuation of a company. Others  
12 will just look at the revenue growth and  
13 earnings growth. Those that look at revenue and  
14 earnings growth tend to invest from a momentum  
15 perspective, meaning, that if these companies  
16 continue to grow and produce, they may not be as  
17 concerned about the valuation of the underlying  
18 business as much as they are at the size of the  
19 opportunity that they can capture, and that is  
20 the description of a strategy called momentum  
21 investing.

22 Q. That's not what you do, correct?

23 A. That's -- there's a component of  
24 that in what we do in that we're trying to  
25 anticipate where those investors will go, but we

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2 are trying to have some sort of valuation  
3 protection, which is something that's not  
4 consistent with momentum strategy.

5 Q. By "valuation protection," you mean  
6 the actual value of the company itself, correct?

7 A. Yes, that perhaps we feel that the  
8 risk/reward ratio which is really the terms that  
9 we think in, you know, in terms of what's our  
10 downside versus what's our upside, and we feel  
11 the risk/reward ratio is skewed in our favor.  
12 We're looking for those types of situations.

13 Q. Please turn the page to the next  
14 page. The very first sentence says, "Although  
15 the investment manager may pursue a variety of  
16 fundamental and technical methods, strategies  
17 and indicia on behalf of the partnership, the  
18 principal focus of the partnership will be on  
19 buying the securities of undervalued companies  
20 that the investment manager believes are  
21 misperceived by momentum investors and selling  
22 short the securities of overvalued companies  
23 that are in favor with momentum investors and  
24 poised to disappoint."

25 Did I read that correctly?

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2 A. Yes, I believe so.

3 Q. Is that a description of what you  
4 were just describing to us?

5 A. Yes.

6 Q. In that sentence I just read where  
7 it says "The securities of undervalued  
8 companies," undervalued by whom?

9 A. It's my perception that they'd  
10 be -- that would relate to my perception of  
11 their value.

12 Q. You would believe that the value of  
13 the company is higher than something else,  
14 correct?

15 A. Than where it was trading, than  
16 itself. I would -- that I'd believe that there  
17 was an opportunity for stock appreciation based  
18 upon where the shares were trading at the  
19 present time.

20 Q. So in other words, you believe that  
21 the market price doesn't correctly reflect the  
22 value of the company?

23 MR. STONE: Objection to form.

24 A. Yes.

25 Q. The answer is yes?

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2 a company?

3 MR. STONE: Objection to form.

4 A. We will meet with management. We  
5 will speak to Street analysts that have followed  
6 those securities. We will read the company's  
7 public filings. We will look at comparable  
8 companies and see where they are valued versus  
9 the company.

10 We might in certain instances  
11 attend trade shows or company shows -- company  
12 events to understand the momentum within a  
13 business and, you know, speak to other people in  
14 the industry and share information with other  
15 investors, too that we might know are involved  
16 in the company and compare our information with  
17 them.

18 Q. You mentioned that you might speak  
19 with Street analysts?

20 A. Yes.

21 Q. What do you mean by "Street  
22 analysts"?

23 A. Analysts on the sell side. We  
24 talked earlier about the buy side and sell side  
25 distinction. Brokerage firm analysts would be

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2 Street, what we call Street research.

3 Q. So would these be folks who are  
4 trying to sell the securities of a company?

5 A. Yes.

6 Q. Why do you speak to them?

7 A. We will -- they all generally  
8 prepare financial models which we tend to use  
9 and modify in looking at a company. They tend  
10 to have access to management on a consistent  
11 basis and follow the data points around a  
12 company that we may or may not catch. You know,  
13 we may miss some, they'll catch some. If they  
14 know we're involved, they'll call and alert us.  
15 So we feel it's important to have that  
16 relationship.

17 Q. Why do you meet with management?

18 A. There's nobody that can tell you  
19 better what's going on in their business  
20 generally than the management. And you want to  
21 make sure that your perception is accurate, and  
22 you want to run by them, you know, your views on  
23 what's happening at a company to make sure that  
24 they feel that they're consistent with what's  
25 actually going on. And you want to do some

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2 measuring of the people involved because  
3 management is an important ingredient in a  
4 company's success.

5 Q. So I take it you don't use formulas  
6 or ratios to come up with some sort of value,  
7 correct?

8 MR. STONE: Objection to form.

9 A. We use a number of different  
10 formulas and ratios to try to gauge whether we  
11 believe there's good value. They vary from  
12 security to security and -- but we're always  
13 looking at different ratios, just not -- there's  
14 no consistent formula for how we do it in any  
15 instance.

16 Q. You mentioned that you look at the  
17 company's SEC filings, correct?

18 A. Yes.

19 Q. What in those SEC filings are you  
20 looking for?

21 A. It's hard to say.

22 Q. Well, I assume financial  
23 performance, correct?

24 A. We're looking for financial  
25 performance. We're looking at the management



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2 discussion and outlook. We're looking at the  
3 balance sheet to make sure that there's enough  
4 capital to sustain the business's operation  
5 through the period of time we think it's going  
6 to be necessary for them to demonstrate the  
7 success we're looking for.

8 We're looking for what sorts of  
9 changes are taking place in the business model,  
10 as that's a way to unlock value. When a company  
11 changes their strategy or adopts new strategies,  
12 frequently, that's a catalyst for some of this  
13 valuation, value creation, I should say. And so  
14 we're always looking for those types of things  
15 which show up in the management discussion.

16 We're looking for customer  
17 concentrations that might be risk factors.  
18 We're looking for legal proceedings that might  
19 be risk factors and a host of other things that,  
20 you know, reading through a filing would elicit  
21 questions and observations about a company.

22 Q. Do you use the management's  
23 forecasts of the financial performance of the  
24 company in attempting to value the security?

25 A. Yes.

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2 A. Uh-huh.

3 Q. The last factor listed says  
4 "Inefficiencies vis-a-vis intrinsic value."  
5 What does that mean?

6 A. I guess what we're trying to say is  
7 that the market hasn't fully recognized the  
8 intrinsic value of the company in our opinion,  
9 and it's been inefficient, so therefore, you  
10 know -- and I think what we're looking at as an  
11 internal factor is what's going to make the  
12 market more efficient, what's going to make the  
13 market realize the value of this company.

14 MR. GOWEN: You guys doing okay?

15 MR. STONE: Yes. How are you  
16 doing?

17 THE WITNESS: Okay.

18 MR. STONE: When do you normally  
19 take lunch?

20 THE WITNESS: About noon.

21 MR. GOWEN: I'm about to switch  
22 gears.

23 Off the record.

24 (Discussion held off the record.)

25 BY MR. GOWEN:

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2 Q. Schottenfeld Qualified Associates  
3 invested in Workstream, correct?

4 A. Yes.

5 Q. Did it invest in Workstream using  
6 the basic methodologies that we discussed when  
7 looking at Schottenfeld Exhibits 1 and 2?

8 A. For the most part.

9 Q. Did it attempt to assess the  
10 intrinsic value of Workstream?

11 A. We didn't come up with a numerical  
12 estimate. In the case of Workstream, we did  
13 come up with a model for valuing the anticipated  
14 revenue streams and a general idea of what the  
15 target was, what the target price was.

16 Q. Generally, the idea was to  
17 determine whether you could buy the securities  
18 of Workstream for less than you thought they  
19 were intrinsically worth?

20 A. For less than I would sell them  
21 for.

22 Q. When did you first become  
23 interested in Workstream stock?

24 A. I had a meeting with Michael  
25 Mullarkey in my office sometime, I guess, in

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2 January, the beginning of this process.

3 Q. Let me cut you off there. When did  
4 Schottenfeld Qualified Associates first become  
5 interested in Workstream stock?

6 A. Well, Stephen had met with Michael  
7 once before, before I did, though, I don't think  
8 he had any interest in purchasing. He had not  
9 recommended the securities for purchase  
10 following that meeting.

11 Q. How did he come to meet with him?  
12 How did Mr. Kalish come to meet with  
13 Mr. Mullarkey in the first place?

14 A. I'm not sure. I believe one of the  
15 brokerage firms -- actually, I believe that a  
16 brokerage firm, CRT Research, that we deal with  
17 suggested that this would be an interesting  
18 company that fit the methodology of our fund.

19 Q. Is it typical for your first look  
20 at a company to come because someone from the  
21 outside suggested it?

22 A. That is one of the ways we find  
23 companies, yes.

24 Q. Is another way, that you find it  
25 yourself?

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2 A. Yes.

3 Q. Are there any other ways?

4 A. We'll go to general industry  
5 conferences or trade shows. If we see a busy  
6 booth, we might go look into what they are  
7 doing. We might find a company as it relates to  
8 another company we're looking at, their  
9 competitors, and we might say okay, this is  
10 interesting because the group is doing, you  
11 know -- so there's a number of ways.

12 Q. Is it fair to say that with respect  
13 to Workstream, that at least initially, it was  
14 an idea that came to you from an outside source?

15 A. Yes.

16 Q. That outside source is CRT?

17 A. I believe they were the first to  
18 show us this stock.

19 Q. At that point or somewhere  
20 thereafter, Mr. Kalish met with Mr. Mullarkey,  
21 correct?

22 A. Yes.

23 Q. Was he doing that as a courtesy to  
24 the broker?

25 A. We were -- we do that many times a

1 R. SCHOTTENFELD

2 week.

3 Q. As a result of the meeting, he did  
4 not recommend that Schottenfeld Qualified  
5 Associates buy the stock?

6 A. He did not.

7 MR. STONE: Objection to form.

8 Q. Do you remember about what time  
9 this first recommendation from CRT occurred?

10 A. I believe it was around January,  
11 but I'm not certain.

12 Q. To the best of your knowledge,  
13 Schottenfeld Qualified Associates took no  
14 interest in Workstream at all before that?

15 A. To the best of my recollection at  
16 this time, yes.

17 Q. Do you recall what it was that CRT  
18 thought Schottenfeld Qualified Associates would  
19 find attractive about Workstream?

20 A. No.

21 Q. What happened after this initial  
22 meeting after which Mr. Kalish did not recommend  
23 the purchases of the security?

24 A. As I recall, another firm or  
25 through some other source, Mr. Mullarkey was